

VZCZCXRO7167
PP RUEHLH RUEHPW
DE RUEHIL #0480/01 0321209
ZNY CCCCC ZZH
P 011209Z FEB 08
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 4806
INFO RHMFISS/CDR USCENCOM MACDILL AFB FL PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC
RUEHNE/AMEMBASSY NEW DELHI 2734
RUEHDO/AMEMBASSY DOHA 1490
RUEHKP/AMCONSUL KARACHI 8815
RUEHLH/AMCONSUL LAHORE 4716
RUEHPW/AMCONSUL PESHAWAR 3405

C O N F I D E N T I A L SECTION 01 OF 02 ISLAMABAD 000480

SIPDIS

SIPDIS

E.O. 12958: DECL: 01/28/2018

TAGS: [ECON](#) [EFIN](#) [EINV](#) [EAID](#) [PREL](#) [PK](#)

SUBJECT: PAKISTAN FINANCE MINISTER PAINTS ROSY PICTURE IN MEETING
WITH SCA PDAS CAMP

Classified By: Deputy Chief of Mission Peter W. Bodde, Reasons 1.4
(b), (d)

Summary

¶1. (C) SUMMARY: Minister of Finance Salman Shah painted a rosy picture for Pakistan's 2008 economic outlook during his January 31 meeting with SCA PDAS Don Camp. He forecast economic growth at 6.5-7 percent; anticipated decreases in rural poverty because of high crop prices; complained about the negative effects of delays in Coalition Support Fund payments on balancing Pakistan's budget; and emphasized that the next government will continue the pro-growth economic agenda. He also made a pitch using the \$200 million in projectized funds for GOP education and health projects already in the pipeline. On resolution of Chevron's claims, he asserted that the oil marketing companies (OMCs) will be paid in full but did not cite a timeframe when questioned. End summary.

¶2. (C) SCA PDAS Don Camp and Economic Counselor (notetaker) met with Minister of Finance Salman Shah January 31. Shah painted a rosy picture of Pakistan's economic outlook for 2008. He also recounted that President Musharraf's European trip (including Davos) was very successful. "Musharraf is very popular with the business community; they all wanted to shake his hand." Shah believes, based on his contacts with Davos participants and European businessmen that there is still considerable interest in investing in Pakistan due to the size of its market, rising income levels, and its young population (100 million under age 25).

Economic growth at 6.5-7 percent

¶3. (C) Despite private sector and IMF forecasts to the contrary, Shah still maintains that Pakistan's economy will grow at 6.5-7 percent in FY2008 (July 1-June 30), down from 7.6 percent. He felt that the economy had recovered after the post-Bhutto assassination violence, even though high commodity prices -- especially oil -- "are hurting Pakistan's economy." He hoped somewhat wistfully that oil prices would drop back down to the \$60 per barrel level. When questioned about paying Chevron in full, he assured Camp that "Chevron would be paid in full" but when questioned, could not specify any timeframe.

¶4. (C) Pakistan is "doing fairly well with balancing its budget," according to Shah. He bemoaned the Coalition Support Fund (CSF) payment delays, even when Camp commented that there is a \$282 million payment on its way by mid-February. Shah pointed out that some provision for continued CSF payments will need to be worked out so

that program continues beyond the change in U.S. administration.

High commodity prices -- good for rural areas

15. (C) Shah saw advantages in high food and non-energy commodity prices for Pakistan's rural poor. After reminding us that two-thirds of Pakistan's population lives in rural areas, he explained that farmers and laborers will be able to benefit from high international commodity prices for cotton, wheat, and sugar cane with the spring 2008 harvests. This will increase rural incomes and cause an economic boom in these areas. (Comment: Pakistan must export commodities to reap the high international commodity prices. We don't see that happening on a large scale basis. Pakistan is already importing cotton to meet the textile industry's requirements. End comment.) Shah acknowledged that the urban working class and poor are feeling the pinch of higher food prices, and that the GOP is working quickly to institute price relief policies, including foodstuff vouchers and income supplements.

Need to implement FATA programs and ROZs

16. (C) Turning to Pakistan's role in the war against terror, Shah opined that the GOP is beginning to "check the terrorists," pointing to the government's success in breaking up a terrorist ring in Karachi January 30. He thought that the number of incidents would increase, but that GOP efforts are beginning to turn the tide. He was appreciative of international efforts to assist Pakistan in its efforts to eliminate extremism, and highlighted that implementation of the FATA employment generation and community development programs will be an important component in this effort. Pakistan must generate at least two million new jobs each year, but should really generate three to four million to ensure that all new entrants to the

ISLAMABAD 00000480 002 OF 002

work force are gainfully employed. Both the FATA programs and Reconstruction Opportunity Zones (ROZs) will help in its efforts in the northern areas. He also made a pitch for increased investment in the automotive and services sectors.

New government will continue same free market policies

17. (C) In response to PDAS Camp's question, Shah assured us that any new post-election government will continue to follow the same free market, pro-growth policies as the current government. "They have no choice," he opined. The financial sector is now completely deregulated and largely dominated by international investors. Therefore, Shah also maintained, that the new government cannot use it for government patronage and sweet heart deals as was done in the 1990s. The electronic media -- which has grown from one government-owned channel to over 50 independent channels -- "will ensure that pro-growth policies continue." The new government will have a "90 day honeymoon" before Pakistan's annual budget preparation season begins and "then the gloves will be off."

Comment

18. (C) Comment: Shah was relaxed and confident that Pakistan's strong economic growth would continue and that foreign investment would continue to flow into Pakistan. The IMF and other analysts are not so sanguine. The IMF staff has downgraded Pakistan's growth prospects to six percent, and are concerned about Pakistan's growing fiscal and current account deficits. We are skeptical whether international commodity prices will benefit the rural sector to the extent Shah believes, particularly since there are few small-scale landowners with access to international commodity markets. That being said, rural poverty has decreased in years with significant bumper crops. End comment.

19. (U) PDAS Camp cleared this cable.

PATTERSON